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Tear Sheet:

Enexis Holding N.V.

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We now expect Enexis will exhaust its balance sheet headroom in 2026. This reflects higher capital expenditure (capex) and operating expenditure needed for its investment plan. Enexis is accelerating its investments, similar to its Dutch peers, to address the Netherlands' faster energy transition and the grid's significant congestion issues. Our updated base case now projects funds from operations (FFO) to debt of 18% in 2025, before dipping well below this in 2026. This is much lower than our previous forecast of more than 19% on average, which had prompted us to upgrade Enexis to 'AA-' in Feb 2024. We have updated our base case because:

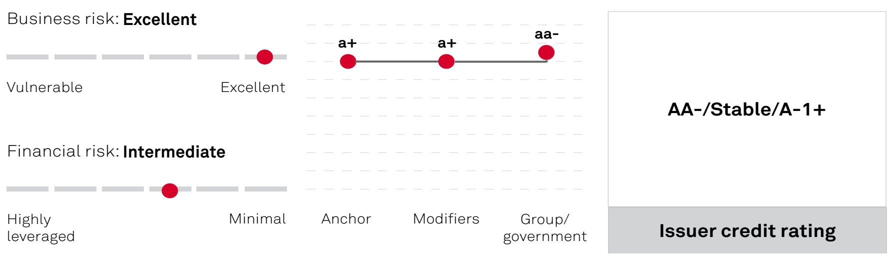
- We anticipate a further increase in capex of about €4.6 billion from 2024-2026, compared to the previously planned €4.3 billion. These investments will not carry any remuneration before their commissioning, creating a time lag between capex outflow and recovery via allowed revenue.
- Operating expenses are expected to rise by about €2.7 billion in 2024-2026, compared to the previously planned €2.4 billion. This reflects higher personnel costs, higher procurement costs, and the pass-through of Tennet costs.
- We expect newly raised debt in 2025-2027 will be €3.5 billion, compared to €3.0 billion in the previous business plan.
- Enexis is facing challenges related to increased works in progress and working capital issues given the growing demand for electricity and the ongoing energy transition. In the first half of 2024, Enexis reported an 18% increase in its work package compared to the same period in 2023, resulting in an additional outlay of €98 million.

If the cost base expands beyond our expectations for 2025-2026 this could further pressure Enexis' credit metrics. This also casts some doubt on the effectiveness of the regulation in enabling a full and timely recovery of total expenditure, at least in the current regulatory period. Regulated asset base growth will not keep pace with such large operating and work-in-progress capex increases, notably in 2026.

We continue to view the regulatory framework as supportive given the upward revision to allowed revenues in 2023. We understand a new cost-plus regulatory framework might be implemented, which could result in increased tariffs and household bills and focus more on investment-oriented regulation to support the energy transition. This should allow for a better recovery of operational costs and capex and sustain the company's cash flow generation at a time of peak investments. The first draft of the new regulatory framework is anticipated to be available for feedback by the earliest in September 2025. We will assess what impact it might have on Enexis' credit metrics.

Enexis' shareholders have recently agreed to reduce dividends, which we view as positive. Enexis has a publicly stated financial policy of maintaining at least an 'A' level rating and funds from operations to debt above 12%. However, current metrics indicate that this ratio is closer to 18% in 2025 and trending below 18% in 2026. Nevertheless, its credit ratio trajectory could change from 2027 and we understand the group has the flexibility to use some credit remedy measures, such as adjusting its dividend policy, or issuing hybrid bonds and converting the shareholder loan. We see its decision to cap dividends at €100 million starting in 2025, with the cap being indexed for inflation, as credit supportive. That said, it will only marginally improve the company's financials given the significant balance sheet pressure from investments. We anticipate that the revised dividend policy will receive formal approval at the AGM in the second quarter of 2025.

Ratings Score Snapshot



Recent Research

- Update: Enexis Holding N.V., Jan. 3, 2023
- Dutch Energy Network Enexis Outlook Revised To Stable On Fudura Sale, Expected State Support; Affirmed At 'A+/A-1', Aug. 9, 2022
- Dutch Networks Stedin, Alliander And Enexis Ratings Affirmed On Government Support; Enexis Outlook Revised To Positive, Feb. 14, 2023
- Utilities Handbook 2023: Western Europe Regulated Power, Oct. 18, 2023
- Industry Top Trends Update Europe: Utilities, July 18, 2023

Company Description

Enexis installs, maintains, operates, and develops distribution grids for electricity and gas in the Netherlands. Through its main subsidiary, Enexis Netbeheer B.V., the company's electricity grid covers 146,300 kilometers (km) with 2.9 million connection points (cps), while its gas grid covers 46,100 km with 2.3 million cps, making it the second largest Dutch DSO after Alliander (as of year-end 2023).

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 86 smaller municipalities.

Outlook

The stable outlook on Enexis reflects that we expect the company to post average FFO to debt of above 18% in 2024 and 2025 but then to decrease below 18% in 2026 due to increased costs.

It also factors in management's willingness to enact remedial measures to sustain the metrics embedded in our base case.

Downside scenario

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

- A higher-than-expected increase in debt from additional capex versus our expectations; or
- Higher shareholder distributions; or
- Adverse regulatory decisions; coupled with
- No timely and sufficient implementation of remedial measures from its shareholders or the Dutch state.

We would downgrade the company if we considered the likelihood of support from the state had weakened.

Upside scenario

All else being equal, an upgrade of Enexis would require a two-notch upward revision to Enexis' stand-alone credit profile to 'aa' from 'a+', which we deem unlikely.

Key Metrics

Enexis Holding N.V.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	1,516	1,634	1,705	2,014	2,567	2,909	3,045	3,444
Gross profit	1,200	1,310	1,325	1,205	1,592	1,884	1,971	2,409
EBITDA (reported)	647	751	745	577	827	997	1,006	1,406
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	(25)	(19)	(33)	(35)	(35)	(35)	(35)	(35)
EBITDA	622	732	712	542	792	962	971	1,371
Less: Cash interest paid	(39)	(37)	(39)	(29)	(41)	(77)	(113)	(160)
Less: Cash taxes paid	(38)	(65)	(55)	(11)	(42)	(108)	(118)	(197)

Enexis Holding N.V.--Forecast summary

Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	545	630	618	502	709	777	740	1,014
EBIT	245	323	281	128	384	541	509	852
Interest expense	45	42	31	38	41	77	113	160
Cash flow from operations (CFO)	610	614	552	503	684	890	797	1,004
Capital expenditure (capex)	738	763	775	1,014	1,290	1,591	1,675	1,753
Free operating cash flow (FOCF)	(127)	(149)	(223)	(511)	(606)	(701)	(878)	(749)
Dividends	106	80	105	198	38	121	107	107
Share repurchases (reported)	--	--	--	--	--	--	--	--
Discretionary cash flow (DCF)	(233)	(229)	(328)	(709)	(644)	(822)	(985)	(856)
Debt (reported)	2,860	3,283	2,986	2,984	3,584	5,084	5,454	6,338
Plus: Lease liabilities debt	116	106	92	91	91	91	91	91
Plus: Pension and other postretirement debt	--	--	--	12	12	12	12	12
Less: Accessible cash and liquid Investments	(47)	(107)	(867)	(127)	(50)	(695)	(50)	(50)
Plus/(less): Other	(246)	(246)	(246)	(246)	(246)	(246)	(246)	(246)
Debt	2,684	3,037	1,965	2,714	3,391	4,246	5,262	6,145
Equity	4,366	4,491	5,691	5,570	5,794	6,024	6,218	6,628
FOCF (adjusted for lease capex)	(171)	(176)	(244)	(541)	(639)	(734)	(908)	(776)
Interest expense (reported)	43	44	33	40	44	80	116	163
Capex (reported)	854	886	901	1,143	1,292	1,593	1,677	1,755
Cash and short-term investments (reported)	47	107	867	127	50	695	50	50
Adjusted ratios								
Debt/EBITDA (x)	4.3	4.1	2.8	5.0	4.3	4.4	5.4	4.5
FFO/debt (%)	20.3	20.7	31.4	18.5	20.9	18.3	14.1	16.5
FFO cash interest coverage (x)	15.1	17.9	16.7	18.1	18.1	11.1	7.5	7.3
EBITDA interest coverage (x)	13.9	17.3	22.7	14.1	19.1	12.5	8.6	8.5
CFO/debt (%)	22.7	20.2	28.1	18.5	20.2	21.0	15.1	16.3
FOCF/debt (%)	(4.7)	(4.9)	(11.3)	(18.8)	(17.9)	(16.5)	(16.7)	(12.2)
DCF/debt (%)	(8.7)	(7.5)	(16.7)	(26.1)	(19.0)	(19.4)	(18.7)	(13.9)
Lease capex-adjusted FOCF/debt (%)	(6.4)	(5.8)	(12.4)	(19.9)	(18.8)	(17.3)	(17.3)	(12.6)
Annual revenue growth (%)	1.7	7.8	4.3	18.1	27.5	13.3	4.7	13.1
Gross margin (%)	79.2	80.2	77.7	59.8	62.0	64.8	64.7	69.9
EBITDA margin (%)	41.0	44.8	41.8	26.9	30.9	33.1	31.9	39.8
Return on capital (%)	3.6	4.4	3.7	1.6	4.4	5.6	4.7	7.0
Return on total assets (%)	2.9	3.6	2.8	1.2	3.5	4.4	3.8	6.0
EBITDA/cash interest (x)	16.1	19.7	18.1	18.4	19.1	12.5	8.6	8.5
EBIT interest coverage (x)	5.5	7.6	8.9	3.3	9.2	7.0	4.5	5.3
Debt/debt and equity (%)	38.1	40.3	25.7	32.8	36.9	41.3	45.8	48.1
Debt fixed-charge coverage (x)	13.9	17.3	22.7	14.1	19.1	12.5	8.6	8.5

Enexis Holding N.V.--Forecast summary								
Debt/debt and undepreciated equity (%)	38.1	40.3	25.7	32.8	36.9	41.3	45.8	48.1
All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.								

Financial Summary

Enexis Holding N.V.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	1,445	1,491	1,516	1,634	1,705	2,014
EBITDA	760	710	622	732	712	542
Funds from operations (FFO)	621	600	545	630	618	502
Interest expense	66	58	45	42	31	38
Cash interest paid	66	60	39	37	39	29
Operating cash flow (OCF)	616	539	610	614	552	503
Capital expenditure	558	638	738	763	775	1,014
Free operating cash flow (FOCF)	58	(99)	(127)	(149)	(223)	(511)
Discretionary cash flow (DCF)	(45)	(221)	(233)	(229)	(328)	(709)
Cash and short-term investments	31	62	47	107	867	127
Gross available cash	31	62	47	107	867	127
Debt	2,344	2,640	2,684	3,037	1,965	2,714
Common equity	4,024	4,112	4,366	4,491	5,691	5,570
Adjusted ratios						
EBITDA margin (%)	52.6	47.6	41.0	44.8	41.8	26.9
Return on capital (%)	6.6	5.4	3.6	4.4	3.7	1.6
EBITDA interest coverage (x)	11.5	12.3	13.9	17.3	22.7	14.1
FFO cash interest coverage (x)	10.4	11.1	15.1	17.9	16.7	18.1
Debt/EBITDA (x)	3.1	3.7	4.3	4.1	2.8	5.0
FFO/debt (%)	26.5	22.7	20.3	20.7	31.4	18.5
OCF/debt (%)	26.3	20.4	22.7	20.2	28.1	18.5
FOCF/debt (%)	2.5	(3.8)	(4.7)	(4.9)	(11.3)	(18.8)
DCF/debt (%)	(1.9)	(8.4)	(8.7)	(7.5)	(16.7)	(26.1)

Rating Component Scores	
Foreign currency issuer credit rating	**AA-/Stable/A-1+**
Local currency issuer credit rating	**AA-/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	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**a+**

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- 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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010