STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

November 1, 2011

Research Update:

Dutch Distribution Network Operator Enexis Upgraded To 'A+' On Improved Earnings And Credit Measures; Outlook Positive

Primary Credit Analyst:
Karin Erlander, London (44) 20-7176-3584;karin_erlander@standardandpoors.com

Secondary Contact:
Mark J Davidson(UK), London (44) 20-7176-6306;mark_j_davidson@standardandpoors.com

Table Of Contents

Research Update:

Dutch Distribution Network Operator Enexis Upgraded To 'A+' On Improved Earnings And Credit Measures; Outlook Positive

Overview

- Dutch electricity and gas distribution network operator Enexis Holding N.V. reported a 40% increase in operating profit for the first six months of 2011, due to higher tariffs and cost savings.
- We believe that Enexis' Standard & Poor's-adjusted credit measures have strengthened due to approved tariff increases and lower investments in the near term than we had anticipated.
- We are therefore raising our long-term corporate credit rating on Enexis to 'A+' from 'A', and removing it from CreditWatch positive.
- The positive outlook reflects our view that we could raise the long-term rating to 'AA-' if we deemed the improvement in Enexis' credit measures to be sustainable over the medium term.

Rating Action

On Nov. 1, 2011, Standard & Poor's Ratings Services raised its long-term corporate credit ratings on Dutch electricity and gas distribution network operator Enexis Holding N.V. and its subsidiary, Enexis B.V. (jointly Enexis) to 'A+' from 'A'. At the same time, we removed the long-term corporate credit ratings from CreditWatch, where they were placed with positive implications on Aug. 30, 2011. The outlook is positive.

Rationale

The rating actions reflect our view that Enexis' financial metrics have improved above our previous forecasts, due to substantial tariff increases confirmed by the regulator for the 2011-2013 regulatory period, the company's ongoing cost-saving program, and lower investment levels in the near term.

Enexis' reported revenues and operating profit increased by 10% and 40%, respectively, in the first half of 2011, compared with the same period in 2010. We believe that Enexis will be able to sustain this level of earnings given the approved regulated tariffs through 2013 and the company's ongoing cost-saving program. The Dutch energy regulator has confirmed regulatory tariff increases for all Netherlands-based distribution companies for the 2011-2013 regulatory period, enabling them to cover an increase in costs in the previous period. During 2011-2013, we understand that Enexis is allowed to increase tariffs annually above inflation by 6.2% in electricity and 3.4% in gas. Revenues are also likely to increase as a result of the consolidation of the Dutch gas distribution network operator Intergas that Enexis acquired in May 2011. At the same time, cost savings reduced operating costs by over €22 million in the first half of 2011, and our view is that the cost savings will continue in the near term.

We also believe that Enexis' capital expenditures (capex) plan and investments relating to the consolidation of the Dutch distribution network sector are likely to be lower than we previously assumed, thereby reducing the company's funding needs in the near term. We understand that the consolidation of the distribution network sector in The Netherlands is unlikely to be implemented as quickly as we initially thought, following the acquisition of Endinet by Dutch distribution network operator Alliander N.V. (A+/Positive/A-1) in 2010 and Enexis' acquisition of Intergas earlier this year. We believe that Enexis will continue to participate in the consolidation of the sector, but that investment will be more spread out over time, thereby limiting the near-term impact on the company's credit metrics.

Today's rating actions reflect our view that, as a result of these developments, Enexis' Standard & Poor's-adjusted ratios will exceed the levels we consider commensurate with the previous rating of 'A', and that the company will be able to sustain adjusted funds from operations (FFO) to debt of more than 20%.

The ratings on Enexis continue to reflect our view of the company's excellent business risk profile. We base our assessment of Enexis' business risk profile on the company's low-risk regulated electricity and gas distribution network businesses, high-quality network assets, and natural monopoly status in its license areas. The majority of its activities, including its electricity and gas tariffs, are regulated by the Dutch Ministry of Economic Affairs and the Dutch regulator, Energiekamer.

The 'A+' rating on Enexis is based on the company's stand-alone credit profile (SACP), 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 (GREs), 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 other provinces and 116 municipalities in the region.

Liquidity

We view Enexis's liquidity as adequate under our criteria. Projected sources of liquidity exceed projected uses by about 1.2x in the next 12 months.

Liquidity sources mainly comprise operating cash flow and available bank lines. Projected uses mainly comprise capex, debt maturities, and dividends. Enexis' ability to absorb high-impact, low-probability events, with limited need for refinancing; its sound bank relationships; its satisfactory standing in the credit markets; and its generally prudent risk management further support our opinion of liquidity as adequate. We believe that Enexis will maintain substantial headroom under the financial covenants in its credit facility documentation.

Our assessment of Enexis' adequate liquidity is underpinned by its unrestricted cash and short-term marketable securities of about €276 million as of Sept. 30, 2011, and access to an undrawn €450 million committed credit facility expiring in 2015. We forecast that Enexis will generate gradually higher FFO over the next 12 months, compared with last year (FFO was €480 million for the full-year 2010, and €294 million in the first half of 2011). We further forecast that generated FFO will cover capex of close to €400 million and €106 million in dividend payments, while the accumulated cash balance will largely cover the €450 million loan that expires in September 2012.

Outlook

The positive outlook reflects our view that Enexis will continue to report solid cash flow coverage of debt metrics over the medium term. We believe that an increase in earnings and operating cash flows is likely through 2013, due to pre-approved regulatory tariffs, ongoing cost savings, and the consolidation of Intergas. We also believe it likely that the company's debt-financed capex and investment plans will be lower than we had previously anticipated due to the postponement of investments.

We would consider a one-notch upgrade to 'AA-' if we assess that the company's credit metrics are likely to have strengthened on a sustainable basis, particularly if the company is able to sustain an adjusted FFO-to-debt ratio of about 25%, while maintaining an unchanged business risk profile.

However, if we believe that the company is likely to recapitalize its balance sheet to be in line with its publicly stated financial policies, including an FFO-to-debt target of at least 20%, we are likely to revise the outlook to stable. Such recapitalization could occur through further sector consolidation in The Netherlands, negative regulatory intervention, or higher dividend payments.

Related Criteria And Research

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

- 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
- 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

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Enexis Holding N.V.		
Enexis B.V.		
Corporate Credit Rating	A+/Positive/--	A/Watch Pos/--

Additional Contact:
Infrastructure Finance Ratings Europe;InfrastructureEurope@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.