

The senior unsecured rating of Bulgarian Energy Holding (BEH) were upgraded to BB from BB- by Fitch Rating who also assigned a Recovery Rating of RR4 to this debt class. The agency also affirmed BEH's long-term Foreign- and local-currency Issuer Default Ratings (IDRs) at BB with a positive outlook.

The statement from the agency reads that the updated Corporates Recovery Ratings and Instrument Ratings (CRR&IR) criteria have eliminated the threshold of prior-ranking debt-to-EBITDA of 2.0x-2.5x in assessing structural subordination of debt holders at the parent level for issuers rated non-investment grade. Consequently, BEH's senior unsecured rating is upgraded to the same level as the BB IDR and the previous notching-down by one level to BB- was eliminated.

Fitch estimates that at end-2020 around 40 % of Fitch-adjusted debt was taken at the parent level, with the remaining 60 % at subsidiaries. However, it expects the currently high share of debt at subsidiaries to decrease to around 50 % at end-2021 and to below 20 % from 2023 on maturity of the state-provided financing to BEH's subsidiary NEK. The expected decrease supported equalization of BEH's senior unsecured rating with the IDR, as was the case until 2019.

According to Fitch, these are the factors that could lead to rating upgrade: upgrade of Bulgaria's rating; further tangible Government support to BEH, such as additional state guarantees materially increasing the share of state-guaranteed debt, or cash injections, which would more tightly link BEH's credit profile with Bulgaria's stronger credit profile; stronger SCP due to funds from operations (FFO) net leverage falling below 4x on a sustained basis, lower regulatory and political risk, higher earnings predictability, and better corporate governance.

Factors that could lead to rating downgrade: downgrade of Bulgaria's rating; weaker links with the state; weaker SCP, e.g. due to FFO net leverage exceeding 6x on a sustained basis, escalation of regulatory and political risk, or insufficient liquidity.