State-owned Bulgarian Energy Holding’s (BEH) got long-term corporate family rating of Ba1, the probability of default rating of Ba1-PD, and the senior unsecured debt ratings of Ba2, with stable outlook was affirmed by the ratings agency Moody’s.

The statement from the agency said that the rating reflects its view that BEH’s standalone credit profile, expressed as a Baseline Credit Assessment (BCA) of b1, is benefitting from Bulgaria’s migration to liberalized electricity and gas markets, given the group’s favorable electricity generation profile and dominant position as gas supplier. Planned investments, primarily in gas infrastructure, will weaken BEH’s leverage metrics over the coming years, but this is mitigated by a high probability of support from the company’s sole owner, the Government of Bulgaria (Baa1 stable), leading to an overall final rating of Ba1. Key drivers of the company’s BCA include the group’s low-carbon power generation mix with around 75 % of output stemming from nuclear and hydropower plants and its ownership of strategic parts of the domestic energy infrastructure, such as the gas and electricity transmission grids, which are regulated and contribute at least 30 % of annual EBITDA. In addition, BEH’s financial flexibility has improved, following gradual reform steps of the regulated electricity and gas markets, in combination with moderate capital expenditures over the last years and dividend restraint by its owner.

However, the BCA is constrained by BEH’s volatile earnings profile and low cash flow visibility which are largely caused by an unsettled regulatory regime; by uncertainties with regard to the implementation of the full liberalization of the Bulgarian electricity market and its effects on the group’s earnings; and by weak liquidity management. BEH relies almost exclusively on internally generated cash flows for its liquidity management, which is centralized at the parent company level. As liquidity back-up lines only exist in the form of small overdraft facilities at subsidiary level, the company is exposed to market disruption risk.

BEH currently displays financial flexibility and low leverage, expressed as funds from operations (FFO) to net debt, which in 2019 amounted to around 31 %. Moody’s anticipates a temporary weakening of the leverage metrics over the next years as a result of two major gas infrastructure projects, the Balkan Stream pipeline connecting Bulgaria’s borders with Turkey and Serbia, as well as the IGB interconnector with Greece, but expects metrics to remain commensurate with BEH’s current BCA and ratings.

BEH falls under Moody’s Government-Related Issuers Methodology due to its 100% ownership by the Government of Bulgaria (Baa1 stable). Accordingly, and based on Moody’s view of high default dependence and high support in case of financial distress, BEH’s rating incorporates three notches of uplift from its BCA of b1.

The outlook is stable, reflecting Moody’s view that BEH generally benefits from the liberalization of Bulgaria’s wholesale energy markets, reflected in an improved credit profile, expressed as BCA of b1. This is partly offset by the uncertainties with regard to the implementation timeline and eventual design of the fully liberalized markets in which BEH operates. Moody’s expects that the company will be able to maintain a financial profile, expressed as FFO/debt, commensurate with its BCA in the high teens in percentage terms on a sustained basis, notwithstanding a temporary weakening over the next 2 years, owing to larger investment projects. A one-notch downgrade or upgrade of the BCA may not necessarily result in a change in the final rating.