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## Summary:
# N.V. Eneco Beheer

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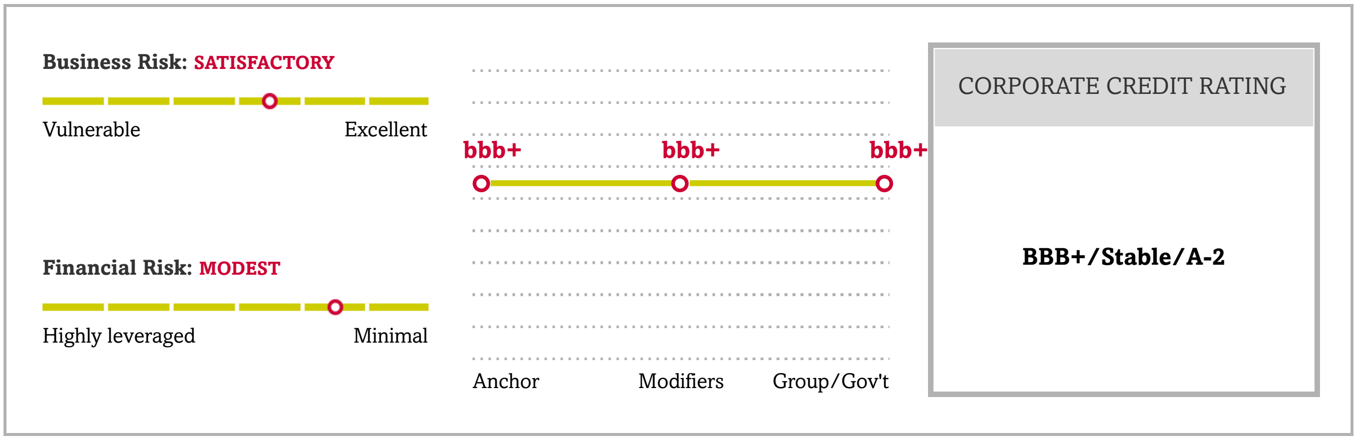


## Rationale

| Business Risk: Satisfactory | Financial Risk: Modest |
| --- | --- |
| • Strong cash flow generation thanks to stable earnings from renewables generation and heating and cooling.<br>• Exposure to fairly competitive markets in its retail and supply activities.<br>• High capital expenditures related to an ambitious growth plan.<br>• Limited size compared to European peers. | • A healthy financial position following unbundling with low level of debts and upcoming maturities.<br>• Lower margins resulting from retail acquisitions, but increasing after 2019 through commissioning of renewable projects.<br>• Funds from operations to debt sustained above 50% albeit constraints from negative free operating cash flow generation. |



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### Outlook: Stable

The stable outlook on Dutch multi-utility N.V. Eneco Beheer (Eneco) reflects S&P Global Ratings' view of the company's financial headroom after unbundling. Eneco has embarked on a significant capital expenditure (capex) program to increase the size of its renewable fleet and maintain its heating networks. In addition, Eneco has ramped up its acquisition activities by pursuing expansions of its retail and generation businesses. We believe Eneco will maintain funds from operations (FFO) to debt above 50% on average, keeping a prudent hedging strategy, and therefore reducing cash flow volatility.

#### Downside scenario

The rating could come under pressure if the company struggled to maintain FFO to debt above 50%. This could occur, for example, if the heating and cooling networks failed to deliver stable cash flows; if the company fails to exploit synergies in recent acquisitions, if the output of the wind fleet was much lower than currently anticipated, for example due to operational issues; or if the company lost significant market share in its retail activities.

#### Upside scenario

Eneco aims to strengthen its business risk profile through diversification and expanding operations, and ratings upside is currently limited since it will depend on the execution and development of this current strategy. We don't expect the company's pursuit of growth and diversification to materially change its business profile over the coming 18 months, but we expect to have a clearer picture of the strategy's outcomes in 2019. We could consider a one-notch upgrade if ratios improved clearly, such that FFO to debt rises well above 60% on a sustained basis and the company maintains or improves its asset base.

## Our Base-Case Scenario

### Assumptions

- Sustainable EBITDA contribution from the wind and the heating and cooling divisions.
- Increased wind capacity supporting cash flow generation, subject to their respective regulatory regimes.
- Reduced contribution from gas-fired generation.
- Increasing contribution from supply activities following the acquisitions of Lichtblick (50% ownership) in Germany and Eni Belgium in 2017.
- Discretionary acquisitions after 2017 valued at between €150 million and €300 million per year on average over the coming three years.

### Key Metrics

| (%) | 2017f | 2018f | 2019f |
|---|---|---|---|
| FFO/debt | More than 50 | More than 50 | More than 50 |
| EBITDA margin | More than 10 | More than 10 | More than 10 |
| Capex (mil. €) [1] | 600-750 | 300-500 | 300–500 |
| FOCF/debt [2] | Negative | Negative | Negative |

Note: All figures are full adjusted by S&P Global Ratings. [1]Includes discretionary acquisitions. [2] Following the acquisitions. FFO--Funds from operations. FOCF--Free operating cash flow. f--S&P Global Ratings' forecast.

## Business Risk: Satisfactory

As ordered by the Court of Amsterdam in November 2016, Eneco unbundled its regulated network from the rest of its activities by Jan. 31, 2017. Stedin group now holds the network activities while Eneco operates the non-network businesses.

Eneco's activities consist of renewable energy (53% contribution to total EBITDA); supply (around 22%) heating and cooling business (13%); and gas fired generation (10%). We believe that Eneco's business risk is mainly supported by its strong portfolio of renewable energy in supportive jurisdictions, as well as district heating and cooling activities that together contribute to a majority of income.

We consider that the company's hedging strategy in its generation activity prevents excessive cash flow volatility. In addition, we have seen relatively low churn rates in Eneco's retail activity, especially in its domestic market Netherlands, and we expect the company to maintain its market share in the medium term.

The Eneco group has completed several acquisitions and strategic partnerships in 2016 and 2017. The company is developing an ambitious expansion program both in Retail and in Generation activities. It seeks operational and geographic diversification and solidified sources of cash flows. We expect that the result of these new operations won't materialize and become measurable until 2019. Currently, the group's limited size compared with European peers is constraining our assessment of Eneco's business risk profile.

## Financial Risk: Modest

We anticipate that Eneco should be able to maintain a modest financial risk profile based on a FFO-to-debt ratio of above 50%, which is commensurate with the current 'BBB+' rating.

We believe that Eneco's expansion ambitions lead to negative forecasted operating cash flow after capex and acquisitions in the coming two years. We also note Eneco's plans to continue its 50% dividend payout ratio. We believe that this will lead to an increase in debt of about €100 million annually. That said, acquisitions are at the sole discretion of Eneco. Finally, we believe that increased capital spending should result in increased income upon 2020.

## Liquidity: Adequate

We view Eneco's liquidity as adequate given its strong financial position after unbundling, with limited amount of debt, strong cash position, access to the committed RCF, and despite an ambitious expansion strategy planned for this year. We expect that liquidity sources will exceed uses by 1.2x over the 12 months started June 30, 2017.

We have adjusted the cash amount to remove €65 million of restricted cash.

Below, our estimates of Eneco's principal liquidity sources and uses for the 12 months started June 30, 2017.

| Principal Liquidity Sources | Principal Liquidity Uses |
|---|---|
| • Unrestricted cash of about €300 million;<br>• Available committed RCF line of €600 million maturing July 2022; and<br>• FFO generation between €350 million and €400 million. | • Flexible capex and acquisitions totaling between €300 million and €450 million;<br>• Debt maturities of about €100 million; and<br>• Shareholder distributions of 50% of net income. |

### Covenant Analysis

The company is subject to compliance with several leverage and interest coverage ratio covenants as per its loan facilities and liquidity facility. We estimate that Eneco will have sufficient headroom under these covenants in the coming 12 months.

## Ratings Score Snapshot

### Corporate Credit Rating

BBB+/Stable/A-2

### Business risk: Satisfactory

- **Country risk:** Very low
- **Industry risk:** Moderately high
- **Competitive position:** Satisfactory

### Financial risk: Modest

- **Cash flow/Leverage:** Modest

### Anchor: bbb+

### Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

### Stand-alone credit profile : bbb+

- **Likelihood of government support:** Low

## Related Criteria

- 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
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Research Update: Eneco Beheer Rating On Watch Negative; Eneco Holding Rating Affirmed After Further Disclosure On Likely Unbundling Plans, Sept. 20, 2016
- Research Update: Netherlands-Based Delta And Eneco Ratings Affirmed After Dutch Regulator's Announcement About Potential Unbundling Dates, Dec. 17, 2015

**Business And Financial Risk Matrix**

| | Financial Risk Profile | | | | | |
|---|---|---|---|---|---|---|
| **Business Risk Profile** | Minimal | **Modest** | Intermediate | Significant | Aggressive | Highly leveraged |
| Excellent | aaa/aa+ | aa | a+/a | a- | bbb | bbb-/bb+ |
| Strong | aa/aa- | a+/a | a-/bbb+ | bbb | bb+ | bb |
| **Satisfactory** | a/a- | **bbb+** | bbb/bbb- | bbb-/bb+ | bb | b+ |
| Fair | bbb/bbb- | bbb- | bb+ | bb | bb- | b |
| Weak | bb+ | bb+ | bb | bb- | b+ | b/b- |
| Vulnerable | bb- | bb- | bb-/b+ | b+ | b | b- |

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