



Fitch: State Loan for Belene Payment Mildly Positive for BEH's Rating

Fitch Ratings-Warsaw/London-30 September 2016: Fitch Ratings says that an interest-free loan from the Bulgarian state (BBB-/Stable) for the Belene arbitration payment is marginally positive for the rating of Bulgarian Energy Holding EAD (BEH, BB-/Stable), reflecting strong links between the state and the company.

The loan comes at a time when the share of state-guaranteed debt, another measure of state support, in BEH is declining. We continue to reflect strong links with the Bulgarian state in a one-notch rating uplift over BEH's standalone rating.

The Bulgarian Parliament this week approved a bill to provide state aid in the form of an interest-free loan to BEH's subsidiary, Natsionalna Elektrieska Kompania EAD (NEK). The aid relates to the arbitration payment to Russia's Atomstroyexport for the equipment of the terminated Belene nuclear power plant project. The bill will now be subject to the European Commission (EC) notification with respect to state aid. If approved by the EC, the government will provide an interest-free loan to NEK. The exact amount and maturity of the loan are yet to be determined by the Council of Ministers.

The Bulgarian government said recently that the contemplated state aid is for the full amount owed by NEK and the first payment to the Russian party will be about EUR400m (BGN0.8bn). At present the total arbitration amount is EUR554m (BGN1.1bn) together with interest accrued, that the Court of Arbitration in the International Chamber of Commerce in Paris ordered NEK to pay to the Russian party in June 2016.

We currently assume in our rating case projections that NEK's payment of the ordered amount to the Russian party would increase BEH's funds from operations (FFO) adjusted net leverage in 2017 to 3.8x from 0.9x in 2015, which is still strong for the current rating.

BEH's strong links with the state are evidenced mainly by state guarantees provided to certain subsidiaries (23% of the group's debt at end-2015, down from 50% in 2012), strong operational ties and the strategic importance of the group due to its dominant market position in the country's electricity and gas market.

We expect the share of state-guaranteed debt in BEH to decline further in 2016-2017 as such debt is amortised while most new debt is unlikely to receive any more state guarantee in our view. The only new state-guaranteed loan is for a gas interconnector with Greece (BGN215m) that BEH will take up in 2017. Weakening links between BEH and Bulgaria through, for instance, a declining share of state-guaranteed debt to less than 10%-15% of total group debt or lack of tangible support, if needed, would likely result in the removal of the one-notch uplift over BEH's standalone rating.

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